# The India-US Tariff Dispute: Implications for Bilateral Trade, Investment and Economic Growth

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***Abstract***

*India and the United States have a well-established economic and strategic partnership that involves trade, investment, technology, energy, defence, and services. Nevertheless, conflicting tariff regimes, trade barriers, agricultural protectionism, trade imbalance, and geopolitical issues have led to tension between these nations. The tariff issue escalated in 2025 when the United States applied reciprocal tariffs on Indian imports, followed by another tariff in connection with India's acquisition of Russian oil. In some cases, the total level of tariff on Indian exports amounted to about 50 percent, raising questions in relation to export-based industries of India. An important development took place in February 2026 when India and the United States reached an interim trade agreement whereby the reciprocal tariff of the USA on Indian products was lowered to 18 percent while India decided to cut down or abolish tariffs on some U.S. industrial and agricultural products. Nonetheless, further discussions have taken place, and issues related to the trade imbalance, market access, and transshipment of Chinese goods via third-party countries still arise. This study aims to analyze the main reasons for the India–USA tariff dispute, economic implications of this issue and required policies to foster trade relations between the two nations.*

***Keywords***

*India, USA, tariffs, international business, trade policies, export, protectionism, bilateral trade*

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**Introduction**

International trade plays an important role in ensuring economic growth because it offers access to international markets, technology, capital and value chains. There has been an interesting economic relationship between India and the United States over the past few decades where the latter is the destination country for the former and vice versa. The relationship involves a wide range of sectors such as information technology, pharmaceuticals, textiles, engineering goods, energy, defence and financial services. Despite the increasing economic relations, there have been periodic disputes on trade issues between the two countries.

Disputes reached their peak in 2025 due to the introduction of U.S. reciprocal tariffs on India. In addition, India incurred another tariff cost for importing Russian oil. During the height of the dispute, the total tax charged on some Indian products stood at 50 percent. This was a challenge for the Indian exporters in terms of jobs and competitiveness.

One of the major steps towards settling the dispute was the signing of interim trade understanding between India and USA in February 2026. The United States reduced the reciprocal tariff rate to 18 percent from the previous one while India reduced or scrapped tariffs on several U.S. industrial and agricultural products.

Nevertheless, the trade relationship faces some difficulties. In 2026, negotiations were ongoing while a new issue of transshipments of Chinese products through India and other countries to avoid U.S. tariffs cropped up.

**Objectives of the Study**

The major aims of the study include:

1. Identifying the primary reasons behind the India-USA tariff conflict.
2. The economic repercussions of U.S. tariffs on India.
3. The implications of tariff escalation from an industrial perspective.
4. The impact on American industries and consumers.
5. The importance of the trade agreement signed in February 2026.
6. Suggestions for policies to improve India-USA trade relations.

**Research Methodology**

The research is of a descriptive and analytical nature and relies on secondary data. Data and information have been collected from official government sources, international organizations, think tanks, and various economic and financial sources such as the Government of India, United States Trade Representative, White House, World Trade Organization, and Reuters.

The analysis is conducted up until August 2026 and is done keeping in mind the tariff issue with regard to international trade, economic competition, and bilateral economic relations.

**Major Causes of the India–Usa Tariff Dispute**

**1. Differences in Tariff Systems:** The main reason for the conflict is the disparity in tariff systems. India has fairly high tariffs on some agriculture and manufactured goods. The tariffs are partly aimed at safeguarding local industries, local farming, and employment opportunities.

The US has claimed that India's high tariffs prevent the US from accessing India's huge consumer base. India, on the other hand, believes that the tariff system should take into account India's development requirements as well.

**2. Trade Disparity:** The United States is also worried about the country's trade imbalance with India. According to the American government, a more balanced trade arrangement is needed.

It is said by India that economic ties between the two countries cannot be measured merely on the basis of merchandise trade since services, investments, and technology tie-up are also a part of bilateral economic relations.

**3. Agricultural Market Access:** The agricultural sector is one of the most sensitive sectors of the negotiations. The USA had made attempts to obtain more access for such goods as dairy, poultry, fruit and nuts, agricultural products.

India has always been very careful regarding agricultural negotiations because the sector gives employment to millions of rural people. More imports can be very damaging to farmers.

**4. Non-Tariff Barriers:** In addition to Indian customs duties, the U.S. government has pointed out Indian regulatory requirements, standards, and certifications. According to the Indian side, some of the regulatory requirements serve as protection for consumers, public health, and domestic industry.

Thus, the negotiations between the two countries are not restricted to tariffs only.

**5. Russian Oil and Geopolitical Considerations:** The tariff issue took a geopolitical turn due to India's continued imports of Russian crude oil.

To India, Russian oil was essential both for energy security and economic reasons, whereas the United States saw the import of Russian oil as part of its broader policy on Russia.

This additional U.S. tariff on Indian imports of Russian oil shows the growing role of foreign policy in international business policy.

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**Tariff Escalation and the 2026 Trade Understanding**

In 2025, the increase in U.S. tariffs caused some uncertainty for Indian exporters. With the increase in tariffs, the cost of Indian products in the American market increased and the competitiveness of price-sensitive products was at risk.

However, the situation improved significantly in February 2026. According to the interim understanding, the United States lowered the reciprocal tariff on Indian products to 18% and the additional tariff associated with Russian oil purchases was also reduced. India committed to reducing or removing tariffs on certain American industrial and agricultural products.

The understanding marked a significant step forward in achieving trade stability. Nevertheless, there were still some problems that had to be addressed. Discussions for reaching an overall trade agreement took place throughout 2026.

**Impact on Economy of India**

**1. Impact on Export:** Increased U.S. tariffs may result in reduced competitiveness of Indian exports. If increased tariffs raise the final price of imported goods, then consumers in the United States may cut down their purchase volumes or resort to different suppliers.

It is especially crucial for those economic sectors that have tough competition in global markets. Indian exporting companies would be forced to lower their costs and profit margins to maintain their market share.

**2. Impact on Employment:** There are numerous jobs created in export-oriented sectors of the economy. In case there is a decrease in export volumes, this could have an impact on production, investment and job market, especially labor-intensive industries. Such industries include textiles, leather products, jewellery industry and marine products sector.

**3. Impact on MSMEs:** MSMEs could be more susceptible to tariff shocks compared to big corporations. Such firms usually lack access to financial resources and diverse export markets.

**Sectoral Implications**

**Textiles & Apparel:** Indo-Government Textile & apparel manufacturers face competition from Bangladesh, Vietnam and other Asian countries. Increased tariffs can lower price competitiveness and force buyers to move their purchase orders to other nations.

**Gems & Jewellery:** India enjoys prominence in diamond polishing & jewellery manufacturing. As the industry is highly dependent on exports, an increase in tariff rate will impact export demand and margins.

**Pharmaceuticals:** India is one of the largest generic medicine producers for the world market. Increased tariff can impact India's export industry of medicines and also affect US importers.

**Engineering Goods:** Engineering goods, machines and spare parts for automotive sector is yet another important sector of India's exports to US. Increased tariffs can impact American firms that use Indian spare parts and components.

**Information Technology Services:** Tariffs on merchandise do not directly affect India's IT service exports to US. However, trade talks in the larger context can affect issues of tax and data transfer etc.

**Effects on the United States**

While tariffs are intended to be protectionist, their effects can be adverse even for the importing country itself.

American firms importing Indian products may incur higher cost of inputs. The firms have the option of raising prices, reducing their margins or finding alternative suppliers.

In addition, consumers may suffer from price increases if the costs of the tariff are passed on to them by the businesses.

Finally, the current era of trade sees reliance on international supply chains. The American firms may depend on Indian pharmaceuticals, engineering parts or textiles and other intermediate inputs. Thus, the tariffs will also adversely impact the competitiveness of American firms alongside the Indian exporters.

Thus, the dispute highlights an important aspect of the trade policies of the contemporary world: the effect of a tariff on imported goods can have negative effects for both the exporter and importer countries.

**Development of Transshipment Problem**

During 2026, there is a new issue emerging regarding transshipment of Chinese goods via third countries.

The United States has voiced its concerns that the Chinese goods may be transhipped via third countries to avoid the US tariffs. India was one of those countries which has drawn attention in regard to this problem.

This problem highlights the importance of rules of origin. India needs to improve documentation, origin certification and supply chain tracking to make sure that Indian exports are distinctly identifiable from the exports of other countries.

At the same time, the circumvention of tariffs needs to be investigated based on reliable data about the shipments.

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## Policy Recommendations

**1. Conclusion of Balanced Trade Agreement:** India and the U.S. must continue negotiations for a balanced trade agreement relating to tariffs, agriculture, industry goods, services, investments, and digital commerce.

**2. Sectoral Approach:** India can consider lowering the level of tariffs which enhance domestic competitive advantage while taking care of vulnerable sectors like agriculture and small-scale industries.

**3. Diversification of Export Markets:** India can try to decrease its dependency on U.S. market and increase its exports to Europe, ASEAN, Middle East, Africa, Latin America, and other growing markets.

**4. Enhance Domestic Competitive Advantage:** India must take measures to lower the cost of logistics, infrastructure development, streamlining of customs procedure, technological upgradation, and improving access to finance.

**5. Assistance to MSMEs:** The export-oriented MSMEs of India must be assisted with export credit, marketing, technical know-how, and certification of quality of their products/services.

**6. Enhance Rules of Origin:** India can develop its customs procedures to verify supply chain and alleviate issues of transshipment.

## Future Prospects

Future prospects for India-US trade relations will largely depend on the ability of the two countries to deal with their differences through negotiation.

There can be three different scenarios. In the first place, the two countries could make a comprehensive trade deal with lower tariffs and improved market access.

In the second place, there could be a continuation of managed trade relations whereby tariff levels remain high but regular negotiations ensure that there is no deterioration.

In the third place, fresh differences regarding market access or energy or transshipment issues might lead to the imposition of more restrictions.

The first scenario would be the best one for both economies as both India and the US have much in common when it comes to technology, investment, defence, energy and diversification of supply chains.

## Conclusion

The dispute over India–USA tariffs exemplifies the increasing complexities of international trade in the modern world. The dispute covers not only tariffs but market access, agricultural protection, trade balances, energy security, geopolitics, and even logistics management.

The escalation in 2025 put tremendous pressure on Indian exporters, especially from labour-intensive industries. The temporary agreement reached in February 2026 substantially decreased the tension in terms of tariffs as it brought the reciprocal tariff on Indian goods to 18 percent and eliminated the extra tariff linked to Russia oil imports.

However, the ongoing negotiations and problems related to the potential Chinese transshipment make clear that India and the USA still face uncertain bilateral trade relations.

For India, the long-term strategy should be based on the combination of diplomacy and competitiveness improvement. Diversification of exports, investments in infrastructure and technology, development of MSMEs, and strengthening of rules of origin instruments will be key.

For the United States, the overuse of tariffs can impose higher costs for its businesses and citizens and affect the international supply chain.

Thus, the most sustainable strategy will be to negotiate tariff decreases within a predictable, open and mutually beneficial trade environment. The India–USA tariff dispute can evolve into a tool for deepening economic integration between these countries.

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